

TEACHERS' RETIREMENT BOARD
BUDGETS AND AUDITS COMMITTEE

SUBJECT: 2000/2001 Annual Audit Work Plan

ITEM NUMBER: 5

ATTACHMENTS: 1

ACTION: X

DATE OF MEETING: July 13, 2000

INFORMATION: _____

PRESENTER: Way Lee

In accordance with the Standards for the Professional Practice of Internal Auditing, and as part of the responsibilities of the Internal Audit Office, we are requesting your approval of our Annual Audit Plan for Fiscal Year 2000/2001 (plan), which is included as Attachment 1. The plan presents proposed internal audits, school district audits, compliance reviews, and other special projects to be completed during Fiscal Year (FY) 2000/2001. The plan also includes a report of audits completed during FY 1999-2000.

PLAN SUMMARY

Planned internal audits for FY 2000/2001 cover all six branches within CalSTRS. The Investments Branch Risk Assessment study was started in April 2000 and is near completion. Based on the results of that study, we intend to perform four audits in those areas deemed to be of highest risk within the Investments Branch. Other internal audits include START projects, new areas of concern, and projects requested by management. For school district audits, we will begin a preliminary review of the Los Angeles Unified School District (LAUSD).

METHODOLOGY

We continue to use a simplified format for the attached annual audit work plan that includes audits and projects completed during FY 1999/2000 as well as planned audits and projects for FY 2000/2001. For those audits or projects identified as ongoing or not completed as of June 30, 2000, we included the estimated hours to complete the work within the budgeted audit hours for FY 2000/2001.

The estimated total staff hours available for FY 2000/2001 audits and projects is approximately 14,000 hours. This represents approximately 6,300 hours for internal auditors; 5,100 hours for

school district auditors; and 2,600 hours for compliance analysts. The increase in total hours from the prior fiscal year is attributed to our success in filling some of the vacant audit staff positions. We plan to fill all existing vacancies during FY 2000/2001. Similar to previous years, the hours allocated to two clerical support personnel, one Audit Supervisor and the Chief Auditor are not counted as direct audit project hours and therefore are not included within the plan. Additionally, during FY 2000/2001 we intend to promote and reclassify one Associate Management Auditor to a Staff Management Auditor (Supervisor) position in the internal audit program. We are unsure of the timing of this reclassification but it will reduce the total estimated audit hours from the internal audit program since some of that auditor's hours will be reallocated to supervision.

We use 65 percent of the annual available personnel hours for all audit staff to estimate the hours available for direct activities (audits and projects) and indirect activities. Indirect activities are not directly related to the performance of specific audits or projects. This includes staff training; providing/receiving technical support; and performing other branch activities and administrative functions such as preparing board agenda items and monthly reports, attending staff and board meetings, and performing team building activities.

MANAGEMENT REQUESTS

During FY 1999/2000, management requested that we temporarily assign two auditors to work with the START Project Reconciliation Team. This reassignment of two auditors redirected approximately 2,400 available hours during FY 1999/2000. Since START is not scheduled to "go live" until December 2000, we have redirected an additional 2,000 hours for FY 2000/2001. This redirection of hours represents approximately 14 percent of the total direct hours available for FY 2000/2001 thereby reducing the hours that can be spent on other audit assignments. However, our staff's involvement with the START project has resulted in a positive outcome in that the Office of Audits has gained significant knowledge transfer and familiarity with the START project.

The Office of Audits will also be joining the Cash Balance Project Team and working with the Cash Balance Program staff. Future tasks include, but are not limited to, reviewing the current internal control system and assisting with the development of a future Request For Proposal for a third party contractor.

INTERNAL AUDITS

The continued difficulty to find a qualified auditor kept one Associate Management Auditor position vacant for almost the entire year during FY 1999/2000. However, we have a new auditor who will start to work in July 2000. The vacant position and the redirection of one internal auditor to the START Project Reconciliation Team caused some planned audits for FY 1999/2000 to be delayed. Reprioritization of work lead us to perform the Investments Branch

Risk Assessment rather than reviewing the Soft Dollars Program and Investment Operations during FY 1999/2000.

In addition to the audits completed and presented to the Budgets and Audits Committee during FY 1999/2000, we completed most of the Investments Branch Risk Assessment study and we completed a follow-up review of all internal audits performed and completed since January 1997. Beginning with this July meeting, we intend to include the follow-up report as a regular quarterly report presented to the Budgets & Audits Committee. The report will keep the members of the Budgets & Audits Committee updated on corrective actions taken by program management in response to audit recommendations.

Our planned reviews of risks and internal controls within several of CalSTRS' divisions, including Disability and Survivor Benefits; Service Retirement; Accounting; and Membership, were also delayed due to the aforementioned reassignment of staff and the unavailability of system experts' time for the reviews.

SCHOOL DISTRICT AUDITS

Similar to the internal audits program, we had two school district auditor vacancies and one auditor reassigned to the START Reconciliation Team during FY 1999/2000. However, we did not have any staff turnover during the year and we did hire a qualified Staff Services Management Auditor in May of 2000.

During FY 1999/2000 we issued three final reports for Defined Benefit Program (DBP) audits started in prior years, issued two final reports for current year DBP audits, and completed fieldwork on two other current year DBP audits. We also completed one Control Self-Assessment (CSA) engagement and started work on another CSA engagement as well as a Cash Balance Benefit Program (CBBP) audit. In addition, with the exception of a few findings that remain outstanding, we completed all 20 follow-ups to prior audits.

The two control self-assessment engagements were quite successful. We worked with county officials to identify reporting risks and potential future audits of the school districts within the counties. This is an improvement over the traditional audit selection process.

The CBBP audit represented our first attempt to review the CBBP participation and reporting by the school districts. As part of the audit, we developed a comprehensive audit program that can be used for future CBBP audits. We plan to perform two CBBP audits during FY 2000/2001.

As indicated above, we will begin a preliminary review of the LAUSD. Based on the preliminary review, we will determine if a full audit of the district is warranted and make plans to schedule the audit during the following fiscal year.

COMPLIANCE REVIEW

The Compliance staff opened and completed 33 case reviews during FY 1999/2000 and completed 20 cases that were in process at the beginning of FY 1999/2000. The compliance reviews resulted in adjustments to members' accounts of approximately \$41,000. Since recent compliance reviews have not produced high audit exceptions, the Compliance Unit has developed a new sampling method that will include recent retired members and active members who have applied for retirement. Within six months of implementing this new sampling method, we will determine if the method provides improved case review results.

INFORMATION TECHNOLOGY

We have committed to purchase the Audit Leverage program software. The features of this program include human resource management, audit time reporting and project control, electronic work papers, and audit findings and recommendations tracking. Once the Office of Audits is fully staffed (probably in August 2000), we will begin the training on this new software.

Our ability to quickly access audit related web sites has provided us with very useful information regarding new auditing tools and various audit programs. For example, the Association of Public Pension Fund Auditors makes their web site available to members for research of pension fund related audit programs. Additionally, through the Internet, audit staff have been able to better communicate with other public pension fund auditors and exchange auditing ideas and best practices.

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Office of Audits Objectives <u>Internal Audits</u>	Completed Audits for FY 1999-00	Budgeted Audit Hours for FY 2000-01
EXECUTIVE BRANCH START Project <ul style="list-style-type: none"> • Management Identified Risks • I & FS Branch Reconciliation Project (Ongoing) • Database Security Review • Conversion project – testing methodologies, data controls, & process controls (Ongoing) • Post Implementation Review – Planning • Post Implementation Review General: CalSTRS Operations Perform Risk Assessment	X	1,000 90 490 90 170 300
INVESTMENTS BRANCH <u>General:</u> <ul style="list-style-type: none"> • Investments Branch Risk Assessment (complete prior year audit) • Investment Audit #1 • Investment Audit #2 • Investment Audit #3 • Investment Audit #4 <u>Fixed Income:</u> <ul style="list-style-type: none"> • Review of Securities Lending Program 	X	80 480 480 480 480
CLIENT BENEFITS & SERVICES BRANCH <u>Disability & Survivor Benefits Division:</u> Follow-Up Audit: Death Match Process <u>Service Retirement Division:</u> Review of internal controls over Inactive Members Accounts	X	100

**OFFICE OF AUDITS
ANNUAL AUDIT PLAN
Fiscal Year 2000-2001**

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Office of Audits Objectives <u>Internal Audits</u>	Completed Audits for FY 1999-00	Budgeted Audit Hours for FY 2000-01
INFORMATION & FINANCIAL SYSTEM BRANCH <u>Accounting Division:</u> Accounts Receivable Audit <u>Information Technology Services Division:</u> Review of Y2K risk mitigation & implementation Network Security Review	 X	 480 520
EXTERNAL AFFAIRS & PROGRAM DEVELOPMENT BRANCH <u>Cash Balance Plan:</u> Cash Balance Project Team (Review of Int/Controls)		 480
ADMINISTRATION BRANCH <u>Administrative Services:</u> Information Security Office Review <u>Office of Audits:</u> <ul style="list-style-type: none"> • Coordination of CalSTRS annual financial audit • Quarterly Follow-Up on prior audit findings/observations • Annual Audit Planning • Business Process Automation Project Review 	 X	 250 160 40 200
TOTAL AUDIT HOURS for 5 internal auditors:		6,370

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<p style="text-align: center;">Office of Audits Objectives <u>School District Audits</u></p>	<p style="text-align: center;">Completed Audits for FY 1999-00</p>	<p style="text-align: center;">Budgeted Audit Hours (# audits) for FY 2000-01</p>
<p>SCHOOL DISTRICT AUDITS</p> <p>Defined Benefit Program Audits</p> <p>Cash Balance Benefit Program Audits</p> <p>Control Self-Assessment Visits</p> <p>Follow-up to Prior Audits</p> <p>Respond to Executive Reviews</p>	<p style="text-align: center;">5</p> <p style="text-align: center;">0</p> <p style="text-align: center;">1</p> <p style="text-align: center;">20</p> <p style="text-align: center;">2</p>	<p style="text-align: center;">2,240 (7)</p> <p style="text-align: center;">360 (2)</p> <p style="text-align: center;">160 (2)</p> <p style="text-align: center;">210 (7)</p> <p style="text-align: center;">120 (3)</p>
<p>EXECUTIVE BRANCH</p> <p>START Project I & FS Branch Reconciliation Project</p>		<p style="text-align: center;">1,000</p>
<p>ADMINISTRATION BRANCH</p> <p>Office of Audits School District Audit Program Adjustment LAUSD Preliminary Survey</p>		<p style="text-align: center;">360</p> <p style="text-align: center;">300</p>
<p>CLIENT BENEFIT & SERVICES BRANCH / INFORMATION & FINANCIAL SYSTEM BRANCH</p> <p>Service Retirement Div. / Membership Div.: Exception Lines Correction & Manual Calculation Review</p>		<p style="text-align: center;">350</p>
<p>TOTAL AUDIT HOURS for 5 School District Auditors:</p>		<p style="text-align: center;">5,100</p>

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Cases & Follow-Ups Completed or Opened FY 1999-00	Office of Audits Objectives <u>Compliance Cases</u>	Budgeted Audit Hours for FY 2000-01
	<ul style="list-style-type: none"> • <u>Compliance Cases</u> 	
33	Open new cases during fiscal year (not completed by FYE), 30 @ 15.33 hours	460
20	Complete cases in process (from prior years), 24 @ 20 hours, 9 @ 50 hours	930
25	Open & Complete new cases during fiscal year, 35 @ 30 hours	1,050
2	Follow-up on completed cases, 10 cases @ 10 hours	100
17	Complete District Audit Follow-Ups	100
	TOTAL HOURS for 2 Pension Program Analysts:	2,640